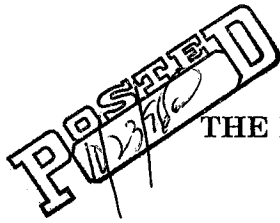


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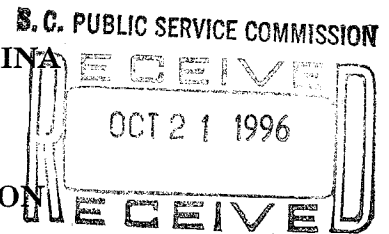
BEFORE

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

Docket No. 96-137-W/S

DIRECT TESTIMONY OF MAYOR STEPHEN M. HAMILTON

OF THE CITY OF TEGA CAY, SOUTH CAROLINA



Q. Please state your name and business address.

A. My name is Stephen M. Hamilton. My business address is Tega Cay City Offices,
7000 Tega Cay Drive, P.O. Box 3399, Tega Cay, South Carolina.

Q. What is your current position?

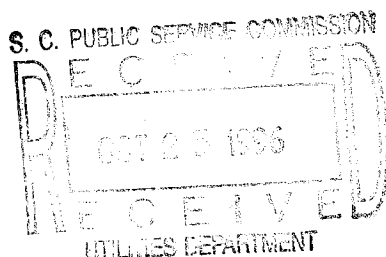
A. I am the elected Mayor for the City of Tega Cay, South Carolina.

Q. What are the responsibilities of your position?

A. Tega Cay has a "strong" Mayor-Council form of government. The Mayor is the Chief
Administrative Officer of the City. As Mayor, I am responsible for the day-to-day
management of the City through all department heads reporting directly to me. I am
responsible for developing and implementing the annual budget. I am responsible for
all programs of the City as well as presiding at all meetings of Council.

Q. How long have you been Mayor of Tega Cay?

A. I am serving the first year of my second two-year term. I was re-elected to my second
term without opposition. Prior to my election as Mayor, I served two two-year terms
on the City Council. Prior to that I voluntarily served on some of the many
committees of the City government which assist and advise the Mayor and Council.
I also serve on many area and district committees including the Rock Hill-Fort Mill
Area Transportation Study Committee, of which I am Chairman.



RETURN DATE: _____
SERVICE: OK (signature)

1 **Q. What is your educational and professional background?**

2 A. I graduated from Pennsylvania State University with a BS degree in Environmental
3 Resources Management. After graduation, I worked for several large companies
4 holding positions in my field. In 1990 I started my own company, Spectrum
5 Environmental, which specializes in waste clean-up and wastewater treatment. I
6 have several large contracts for the cleaning-up of hazardous waste. By owning my
7 own company I am required to have a good knowledge of good business practices as
8 well as the financial aspect of running a business. I employ 5 people and the very
9 nature of my job, providing a service, leads me to conclude that I am knowledgeable
10 in assessing the value of the services provided by Tega Cay Water Service, Inc.
11 ("TCWS") to our community. I understand the assumption that people or
12 organizations operating in providing services should not take advantage of their
13 customers or clients. I have attended numerous seminars in association with the
14 operation of my company as well as my position as Mayor. I am very active in Lake
15 Wylie Lutheran Church where I have held many offices.

16 **Q. What is the purpose of your appearance before the Commission in this**
17 **matter?**

18 A. As Mayor, I am here to represent the residents of the City of Tega Cay to voice our
19 opposition to the proposed rate increase for vital water and sewer services being
20 proposed by Tega Cay Water Service, Inc. Through my business experience, and with
21 assistance from engineers, professional service contractors, the Consumer Advocate,
22 City Council and the Public Works Committee it is my opinion that there is no
23 justification for this increase.

1 Q. What is the basis for your opinion that there is no justification for this
2 increase?

3 A. There are several reasons for my opinion.

4 1. First, I am concerned about the quality of information being used to justify the
5 rate increase. Financial data with respect to TCWS is unaudited. In response
6 to interrogatories, TCWS stated that only the consolidated financial statements
7 of its parent, Utilities, Inc., are audited, and those have not been made readily
8 available but are instead available only in an office in Columbia. I believe
9 that, just as state law requires audited financial statements of local entities in
10 South Carolina, financial statements of the utility operating companies should
11 be certified by an independent certified public account experienced in water
12 and sewer utility accounting, especially since the operating companies provide
13 monopoly services to residents and must be held accountable for their revenues
14 and expenses.

15 2. There is an over-allocation of general corporate expenses to TCWS: expenses
16 such as snow plowing, employee finder (head hunter) fees, and Illinois
17 corporate travel for an unidentified "K. Owens" (who, to our best knowledge is
18 uninvolved in any matters relating to TCWS). Similarly, 100% of the expense
19 of a backhoe is allocated to TCWS, even though a backhoe is not needed full
20 time for TCWS and even though the backhoe is frequently not inside Tega Cay
21 (during which times we can only assume that it is being used elsewhere).

22 3. Unrealized expenses are being included. One employee position in Tega Cay
23 is listed as "vacant" but the expenses for that position are included by TCWS

1 as part of the expenses justifying the rate increase. I see no evidence that
2 TCWS plans to actually fill this position.

3 4. I am concerned that well water may be being introduced into the system, and
4 that residents of Tega Cay are nonetheless being charged at the rate for
5 surface water from York County. This concern is based on several facts. First,
6 there is the reversal in 1995 of historic water losses. According to responses
7 to interrogatories by TCWS, in 1993 and 1994, annual water loss from the
8 system was approximately 11 million gallons. In 1995, there was actually
9 more water accounted for than was pumped. The only apparent explanation
10 is that additional, unidentified water (well water) is being introduced into the
11 system. Also, in 1995, there was an increase in costs for chlorine for water
12 service which is inadequately explained in TCWS's response to interrogatories
13 and which is not needed to treat water purchased from York County. My
14 constituents who live near wells also report pumping activity. My concern
15 about well water in the system is also based on unexplained variations in
16 water quality. Surface water from Lake Wylie at York County's Rock Hill
17 Water Filter Plant is expected to have a "hardness" not to exceed 30-35 parts
18 per million. In June 1996, the City of Tega Cay tested the water at a site
19 inside Tega Cay very close to a well and found the hardness to be 45 ppm. The
20 water was tested again in each of three weeks beginning in September 1996
21 at that same location, and the hardness during those three weeks was 41 ppm,
22 35 ppm and 35 ppm. The reduction to 35 ppm followed the publication of the
23 results of our earlier testing. If well water is being introduced into the system,
24 the residents of Tega Cay should not be required to pay a rate reflecting the

1 higher cost of York County water. As noted by this Commission in its Order
2 establishing TCWS's current rates, quality of service is a factor in establishing
3 rates, and the well water here is demonstrably inferior to the surface water
4 purchased from York County. I have personally observed totally unacceptable
5 water drawn from residences inside Tega Cay since TCWS should have begun
6 purchasing all its water from York County. Regardless of that, however, there
7 is no need for any ongoing operating expense for the wells to be included in the
8 expenses of TCWS. As noted in the letter from South Carolina Department of
9 Natural Resources to TCWS, dated July 3, 1996, and provided by TCWS in
10 response to interrogatories, those wells can be capped securely. If capped,
11 there should be no ongoing operating expense. If they are ever needed in the
12 future, they can be reactivated easily. In fact, because York County has a loop
13 water line system and can, in an emergency, bring water in from the
14 Charlotte/Mecklenburg Utility Department to serve Tega Cay, there is no
15 reason to maintain the wells at all. The contractual agreement between TCWS
16 and York County that requires the wells to be held as a standby water source
17 provides no benefit to York County and TCWS should negotiate with York
18 County for the removal of that provision and the complete closing of the wells.
19 Also, that was not one of the contract provisions that, if disallowed by this
20 Commission, would have invalidated the Contract; and it should be disallowed
21 now.

- 22 5. The projection for future growth in the system is unrealistically low. TCWS
23 projects a total of 30 new taps for the next five years. Yet Tega Cay is in one
24 of the fastest growing areas in South Carolina due to its close proximity to

1 Charlotte, North Carolina. According to the 1990 Census, Tega Cay is the
2 second fastest growing community in York County. The city issued 22 single
3 family residence permits during the test year alone. Our Planning And Zoning
4 Commission has approved sketch plans of the subdivision of two areas that
5 would account for over 110 new lots. A more realistic figure would be that at
6 least 50 taps per year will be added for the next five years; and this figure
7 should be used in projecting water and sewer revenues. TCWS's request for
8 a rate increase should be recalculated based on this revised projection.

9 6. The company intends to continue charging \$100 per year per fire hydrant and
10 to charge additionally for water use from the hydrant in accordance with the
11 rate schedule for water use. Thirteen hydrants were installed by the City in
12 the late 1980s with funds from a state grant. The city's fire department
13 maintains the hydrants through its annual maintenance program which
14 includes removal and greasing of fittings, pumping and cleaning out of
15 hydrants, and pressure checks. Painting of the hydrants has been
16 accomplished on a volunteer basis most recently by the Boy Scouts in 1993 or
17 1994. Moreover, water pressure at the hydrants is insufficient. Our fire
18 department is concerned because, on some hydrants, pressure has fallen below
19 60 pounds.

20 7. The level of profit sought by TCWS -- an operating margin of 12.72% -- is
21 excessive. In light of the operating change, such that the water service of
22 TCWS is now a more passive operation and water is purchased in bulk from
23 York County, the operating margin permitted to TCWS should decrease rather
24 than increase.

1 8. I have concerns about the contributions in aid of construction -- "tap fees" or
2 "CIAC." The right to tap-on was purchased by most residents of Tega Cay
3 when they bought their lots from the developer who actually put the water and
4 sewer utility system in the ground. Consequently, those residents and lot
5 owners should not have to pay a second time in order to tap on. Also, these
6 tap fees do not meet the definition of contributions in aid of construction set
7 forth in this Commission's Order No. 88-237: "CIAC is a special charge
8 collected by the utility from customers or developers to defray the cost of
9 extraordinary utility facilities constructed by the utility for the benefit of such
10 customers or developers." There have been no extraordinary utility facilities
11 constructed, and the facilities that are on the ground were constructed by
12 private developers and paid for by lot owners rather than by the utility.

13 9. The asset base which is used by TCWS to calculate the imputed interest
14 expense (and thereby lower the apparent operating margin) is overstated.
15 First, it appears to include the wells which, as noted, should be taken out of
16 service entirely. Second, it includes capacity for over 3,700 sewer taps, even
17 though there is no need for that many taps in Tega Cay for the foreseeable
18 future. The current residents should not have to finance the carrying cost of
19 that asset for the future benefit of TCWS. Similarly, the remaining 50% of the
20 sewer treatment plant that TCWS says it is now bringing into its asset base
21 is excess capacity at the present time. And finally, the asset base calculated
22 as the purchase price paid for the system by TCWS, less CIAC received by
23 them since their purchase, is far less than the amount claimed by them as

1 their asset base; and I am aware of no construction or other investment by
2 TCWS that would account for the enormous difference.

3 **Q. Does this conclude your direct testimony?**

4 A. Yes, it does.